

**Centre for
Asia Pacific Aviation**

*South Asia's largest
aviation consulting, research
and knowledge practice*

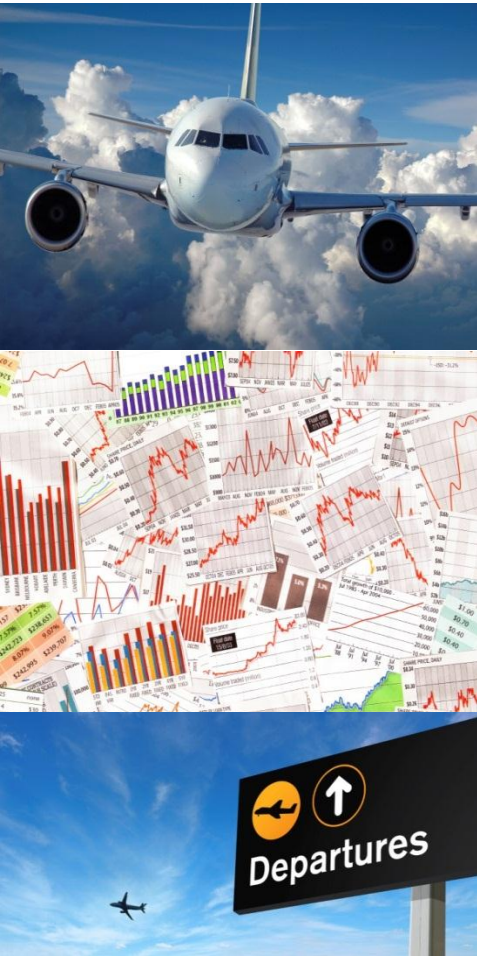


India Inside Out Workshop

www.capaindia.com



16 May 2011
TFWA Asia Pacific & Gate One2One
Singapore



- **Leadership:** CAPA India has emerged over the last 8 years as the leading aviation consulting, research and knowledge practice in South Asia.
- **Influence:**
 - We shape the direction of the aviation industry through strategic analysis and advisory services.
 - Connect with the leaders of industry and government on a continual basis. Completed more than 550 engagements around the world.
- **Applied Research:**
 - Our research division has produced more than 8,000 reports for the global aviation community.
 - Coverage spans North America, Europe, China, Asia Pacific, Middle East and most recently Africa.
 - Dedicated India-based research desk, conducting quantitative and qualitative studies across the aviation value chain.
- **New initiatives include:**
 - CAPA AeroPark
 - CAPA Aircraft Advisory
 - CAPA Ventures
 - CAPA Aerospace City

CAPA AeroPark

- World class aviation university and training campus providing academies for pilots, engineers, cabin crew, air traffic controllers, regulators and management.
- Flagship campus in Bangalore with satellite academies in New Delhi and Mumbai.
- **Phase 1 launching Q4 2011**





- In 2003/04 commenced the most fascinating and game changing period in the history of Indian aviation.
- Genuine and dramatic developments occurred:
 - Domestic open skies and encouragement of LCCs;
 - Liberalisation of international bilaterals;
 - Airport upgrade and modernisation plan;
 - Massive fleet orders.

Result

- Perhaps the fastest metamorphosis of a national aviation industry in history;
- Generational shift in attitudes towards the role of aviation in the economy;
- LCC model truly established itself in India;
- Some of the nation's full service airlines rank amongst the best in the world.
- Airport upgrades will serve India well for decades to come.
- This period paved the way for the US\$120bn investment expected by 2020.

In 2000, India's airports handled: **42m passengers**

In 2010, India's airports handled: **142m passengers**

In 2020, India's airports will handle: **450m passengers***

	Domestic Airline Pax	Int'l Airline Pax	Airport Pax	Growth Multiple	Absolute Growth
2000	14m	14m	42m		
2010	52m	38m	142m	3.4x	100m
2020	180m	90m	450m	3.2x	308m

* CAPA Forecast

- By 2020, India is likely to be the 3rd largest aviation market in the world



Airports over the Last 5 Years

- In 2004, a government committee declared India's airport gateways to be "for the most part an embarrassment"
- Times have certainly changed. Although much remains to be done, the transformation of India's airports over the last 5 years has been remarkable. Key projects have included:
 - Mumbai and Delhi Airports brownfield upgrade projects on PPP basis;
 - Bangalore and Hyderabad Airports greenfield projects on PPP basis;
 - Kolkata and Chennai Airports currently being upgraded by AAI
 - 35 non-metro airports being modernised by AAI
- Airport infrastructure of the quality of Delhi's new Terminal 3, and the fact that major airport projects would be led by the private sector, were unthinkable just a few years ago.



The Next 10 Years

- Projected investment of US\$20 billion in airport projects by 2020
 - Expansion of current gateways;
 - Large greenfield airports (e.g. Navi Mumbai, Pune, Goa);
 - Smaller greenfield airports (e.g. Durgapur, Karaikal);
 - Upgrading of smaller facilities.
- Indian metros will for the first time have multiple airports:
 - Two airports likely in Delhi and Chennai, possibly Bangalore;
 - Mumbai will need to start planning for a 3rd airport with traffic expected to exceed 100 million by early 2020s.

Post 2020

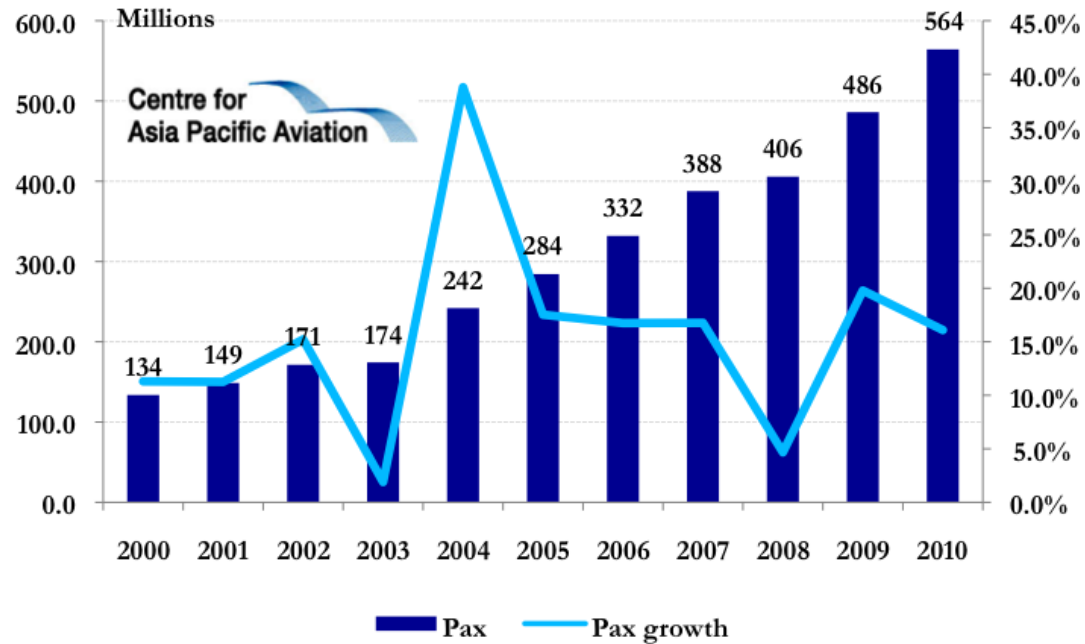
- From a base of 450 million airport passengers, even 10% growth per annum means an additional 45 million passengers per annum!
- With projected GDP growth of 9% per annum, sustained for two decades or more, the traffic growth rate is expected to be closer to 15% pa.
- India's airports will be massive businesses and 50% or more of revenue may be generated from retail and non-aero activities.



The numbers are staggering, but there is precedent, suggesting that they are feasible.

- China went from 134 million pax to 564 million pax in 10 years.
- Projection for India is growth from 142 m pax to 450 million pax in 10 years

Passengers Numbers Handled by Chinese Airports 2000-2010



Source: CAPA and CAAC



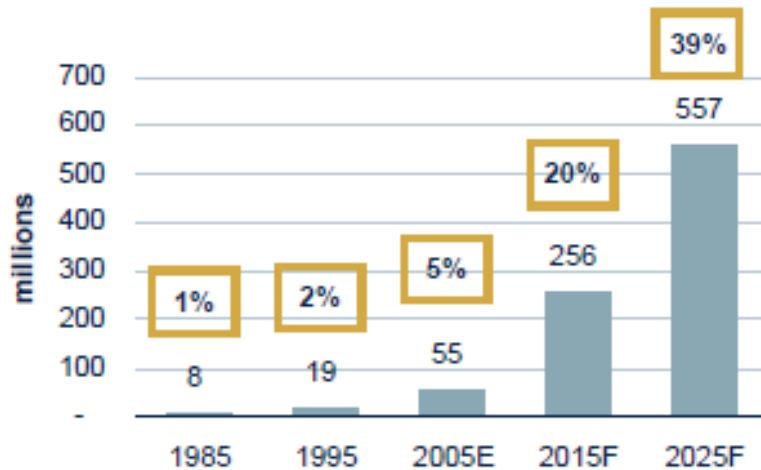


Economic Growth may be even higher than forecast

- Planning Commission projects average GDP growth rate of 9% per annum for the next 20 years. Actual growth rate likely to be even higher due to:
 - Significant size of the 'unofficial' economy;
 - Methodology for calculation of GDP has not been updated to incorporate contribution of fast growth new industries.

- Size of Indian Middle Class is projected to growth from 55 million in 2005 to 256 million in 2015 and 557 million in 2025, by which time it will represent 39% of the population.
- Total consumption by Middle and High Income groups is forecast to grow from INR4 trillion in 2005 to INR56 trillion from 2005 to 2025.
- Urbanisation is also driving consumption, urban population grown from 20% of the population in 1991 to an estimated 35% by 2015.

Size of Indian Middle Class 1985-2025

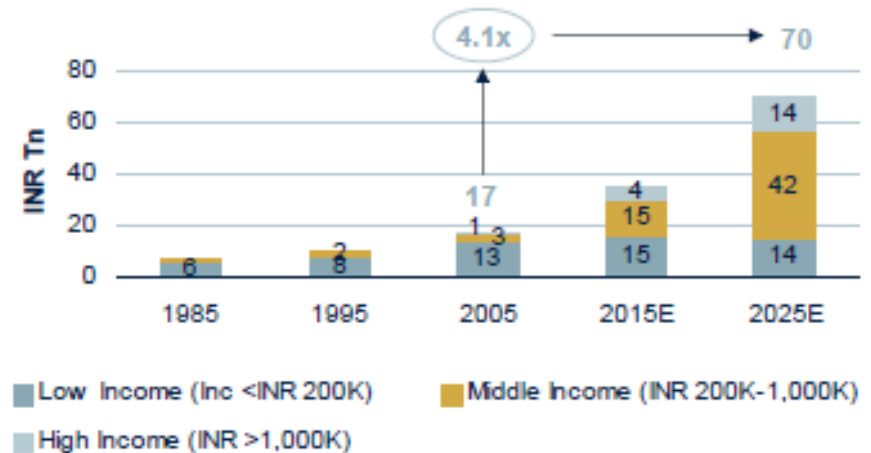


Source McKinsey

Notes

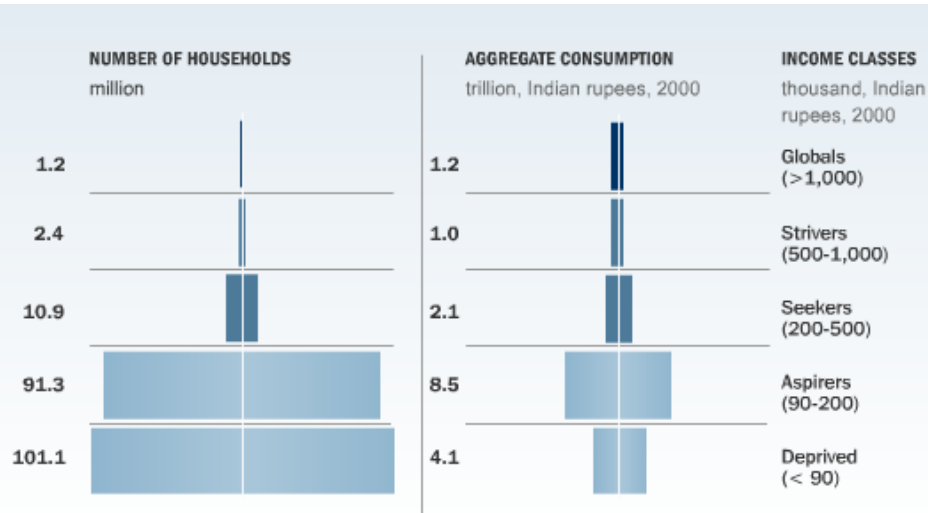
Indicates % of total population

Consumption in India 1985-2025

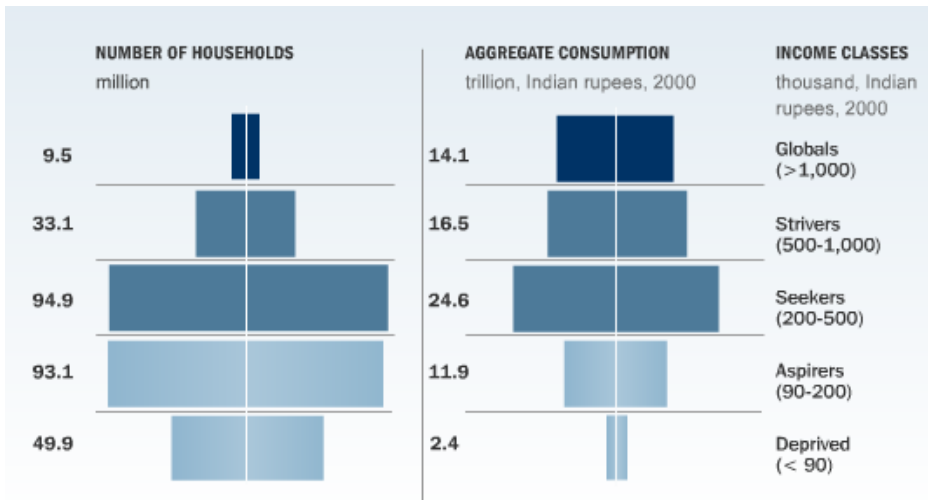


Source RBI, McKinsey Research, EIU

Income & Consumption Pyramid 2005



Income & Consumption Pyramid 2025



- McKinsey report projects a significant reconfiguration of the income and consumption pyramid.
- Middle and High Income households grow from 7% of the total in 2005 to almost 50% by 2025.
- The High Income households – with global tastes and spending patterns - representing just 3% of the total will account for 20% of consumption.



- Keeping pace with the rate of growth is a challenge in itself:
 - Significant upside potential in terms of spend per pax;
 - The number of pax is growing rapidly;
 - The Indian consumer is becoming increasingly wealthy;
 - And Indians are avid shoppers, it is the favourite holiday activity.

BUT perhaps even more challenging than the growth is to understand:

1. The Indian consumer is not homogenous – varies significantly by region, age, gender, income and travel experience;
2. Diversity is further complicated by change. Each individual consumer segment is evolving rapidly due to strong socio-economic influences.

Detailed understanding of the consumer must be central to planning, design and development of retail formats in India.



- The profile of the Indian consumer is changing:
 - Very diverse passenger segments from sophisticated premium travellers to expatriate labour; composition keeps evolving;
 - Growing wealth is driving changes in consumption behaviour and expectations, Indian consumers are becoming more discerning.
 - Influence of media and communications on tastes and aspirations;
 - Major societal changes in attitudes towards consumption;
 - Strong consumption growth is taking place beyond the metros;
 - Retail trends tomorrow will be driven by today's large youth cohort;
 - Every year there will be millions of first time travellers entering the market with their own unique requirements and preferences.

These changes will accelerate, the airport retail offer must be flexible



CAPA has commenced a comprehensive qualitative and quantitative survey of Indian Travel Retail. Survey will cover 8,000 passengers across the 10 largest markets.

Preliminary findings from research conducted to date includes:

- **Promotion:** Passengers have limited awareness of the products and services available in the retail area, resulting in missed sales opportunities;
- **Product:** Passengers feel that the range of products is limited (a view that alcohol and books predominate) and the following categories could be expanded:
 - Children's products;
 - Men's products;
 - Affordable brands and not just premium products;
 - Indian products e.g. souvenirs, clothing, spices, tea, incense, sweets, jewellery, handicrafts;
 - Lifestyle, travel accessories and sports goods;
 - Mobile sim cards on arrival for visitors.



- **Price:** Airport not perceived as a preferred or competitive retail experience compared to a shopping mall or overseas. Greater visibility of discounts and promotions would make shopping more attractive;
- **Service:** Staff found to be poorly trained in product knowledge, sales techniques and overall service engagement.
- **Experience:** Passengers seek greater range of entertainment activities such as cinemas, indoor golf, video games, music zone;
- **Distractions:** Lengthy immigration and security queues impact the overall experience, increase stress and reduce time available for shopping;
- **Peace of Mind:** Customers worried about after sales service and redressal related to products purchased at airports.



- **Business:** Corporate travellers would be willing to pay for access to premium lounges (where their class of travel does not permit automatic access) but facilities and space are limited;
- **Seniors:** Elderly travellers and those with disabilities – often with significant ability to spend – are not able to take advantage of retail offer due to assistance services taking them direct to the gate.
- **Domestic:** Passengers would be interested in purchasing duty paid products in domestic terminals due to convenience offered.



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CAPA India Travel Retail Report 2011

A Groundbreaking Study into the
World's Fastest Growing Market

Published in collaboration with:



CAPA Research & Market Analysis Unit
www.capaindia.com

Groundbreaking report including:

- Exhaustive review and outlook for Indian aviation
- Traffic and retail revenue forecasts to 2020
- Comprehensive survey of consumer behaviour
 - More than 8,000 respondents
 - Covering 10 largest Indian travel markets
 - Supported by extensive focus groups involving hundreds of passengers
 - Exclusive analysis of premium travellers
 - Highlighting emerging markets e.g. female passengers, first time travellers, children and youth, family groups
- Significant benefits for APTRA/TFWA members
- Release date 30 September 2011

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